

ORIGINAL

OPEN MEETING



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MEMORANDUM  
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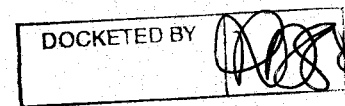
FEB 27 2008

TO: THE COMMISSION

2008 FEB 27 P 3: 34

FROM: Utilities Division

AZ CORP COMMISSION  
DOCKET CONTROL



DATE: February 27, 2008

RE: THE APPLICATION OF TRICO ELECTRIC COOPERATIVE, INC. FOR  
APPROVAL TO FREEZE PARTICIPATION IN ITS RESIDENTIAL TIME OF USE  
TARIFF (DOCKET NO. E-01461A-08-0075)

On February 6, 2008 Trico Electric Cooperative, Inc. ("Trico") filed an application for Commission approval to freeze new participation in its Residential Time-of-Use Schedule RS-1 TOU ("TOU") to allow time to investigate the feasibility of implementing a time-based advanced metering infrastructure and mitigate the negative revenue stream (Exhibit 1) associated with Trico's TOU during the investigative period.

Trico is one of the fastest growing electric distribution cooperatives in the United States, and nearly 10 percent of its approximately 36,000 residential customers are served under its TOU tariff. Trico has offered a TOU tariff for more than 15 years, but recent data analyses indicate that the current tariff does not effectively encourage customers to use energy during off-peak hours, which results in no energy conservation and greatly diminishes the tariff's effectiveness as a demand-side management tool.

Trico's current TOU tariff was approved in its last rate case (Decision No. 68990) in 2005, and the approved rates are based on a 2003 cost of service study. Trico exempted weekends and holidays from on-peak because customers had expressed concerns that it would be difficult to avoid on-peak hours during weekends and holidays. Prior to 2003 Trico rarely experienced coincident peak demands on weekends and holidays. In addition, Trico only had 215 TOU customers at the end of 2005. However in the period 2006-2007, Trico experienced 6 monthly coincident peaks on a weekend or during a holiday. During the same two year period, the number of TOU customers increased to nearly 1,200 and 3,000 in the years 2006 and 2007, respectively. At the end of January 2008, more than 3,000 residential customers were being served under the TOU tariff. The importance of these latter developments is that Trico's supplier, Arizona Electric Power Cooperative, Inc. ("AEP CO"), bills demand charges to its members, i.e. Trico, based on its members' contributions to the AEP CO monthly coincident peak ("CP") demand. As discussed above, the CP is occurring more often on weekends or during holidays compared to years prior to 2006. Exhibit 2 illustrates why this billing scenario is particularly onerous for Trico. Non-TOU residential customers are migrating to TOU thereby reducing Trico's revenues while increasing Trico's demand charges from AEP CO. In addition, AEP CO's demand rate per KW has increased more than 20 percent compared to its 2004 rates.

The situation is further exacerbated by the fact that migrating ratepayers realize an estimated \$40 per month savings without shifting any on-peak energy to off-peak hours (Exhibit 3).

Trico's data indicate that residential TOU customers use slightly less on-peak energy over a month compared to non-TOU residential customers, but TOU customers contribute at least as much to Trico's monthly peak demand compared to the standard residential tariff customer. Given the alignment of the current TOU and standard rates, TOU rates do not promote energy conservation nor do they provide optimal utilization of electric utility facilities and resources.

Staff recommends that the Commission approve Trico's request to freeze adding new customers to be served under its residential TOU tariff. Staff's recommendation is supported by the following findings:

- Recent TOU data analyses indicate that the existing tariff rates do not effectively encourage customers to use energy during off-peak hours. See Exhibit 3.
- Trico's demand costs have increased with increases in the number of TOU customers. One reason for this development is that residential TOU customers do not have to shift usage to off-peak periods to save money as is discussed and illustrated in Exhibit 3.
- The proposed participation freeze will allow Trico time to analyze additional TOU data and design a new TOU tariff that provides a meaningful price signal to shift on-peak energy and demand to off-peak hours.
- The proposed freeze period will allow Trico time to complete an updated cost of service study submit a formal rate case application.
- No later than January 30, 2009, Trico expects to file TOU tariffs with the Commission that have been designed for appropriate customer classes and in accordance with the new Federal PURPA standard Time-Based Metering and Communications.<sup>1</sup>

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<sup>1</sup> By Decision No. 69736, on July 30, 2007, the Arizona Corporation Commission ("Commission" or "ACC") approved a modified version of the Public Utility Regulatory Policies Act of 1978 ("PURPA") Standard on Time-Based Metering and Communications. The Decision approved, in part, two conditions relevant to the above referenced Application: 1) the modified Federal standard will apply to all electric distribution utilities that are under ACC jurisdiction regardless of their annual retail sales volumes; and, 2) electric distribution utilities under ACC jurisdiction are required to investigate the feasibility of implementing time-based advanced metering infrastructures, and if they are cost effective, implementation of these systems shall begin no later than January 30, 2009 (within 18 months of Commission adoption of the standard).

THE COMMISSION

February 27, 2008

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Within ten days of a decision in this matter, Staff recommends that Trico be required to file with Docket Control, as a compliance item in this case, the residential TOU tariff that is frozen.

A handwritten signature in black ink, appearing to read 'EGJ', followed by a long horizontal flourish.

Ernest G. Johnson

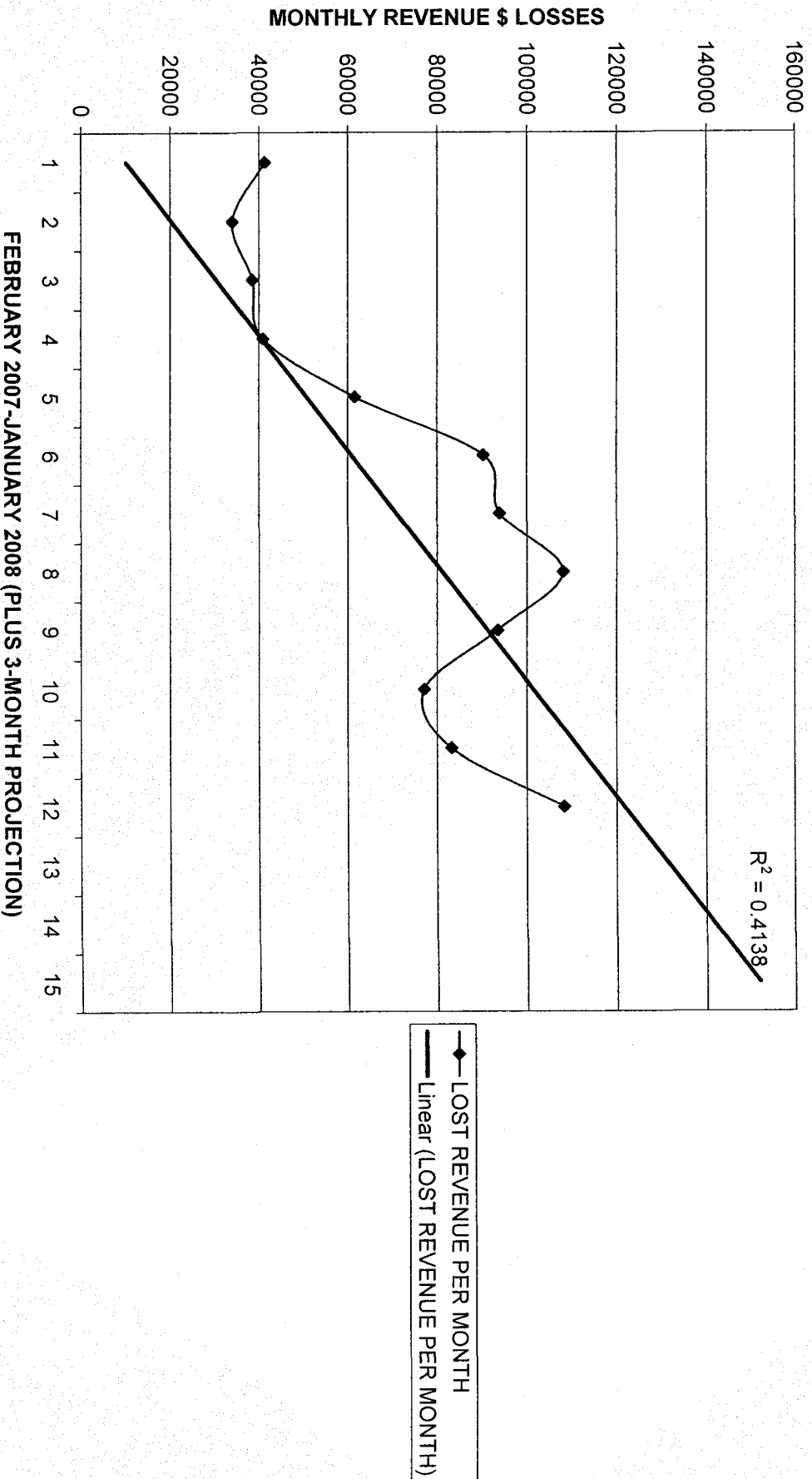
Director

Utilities Division

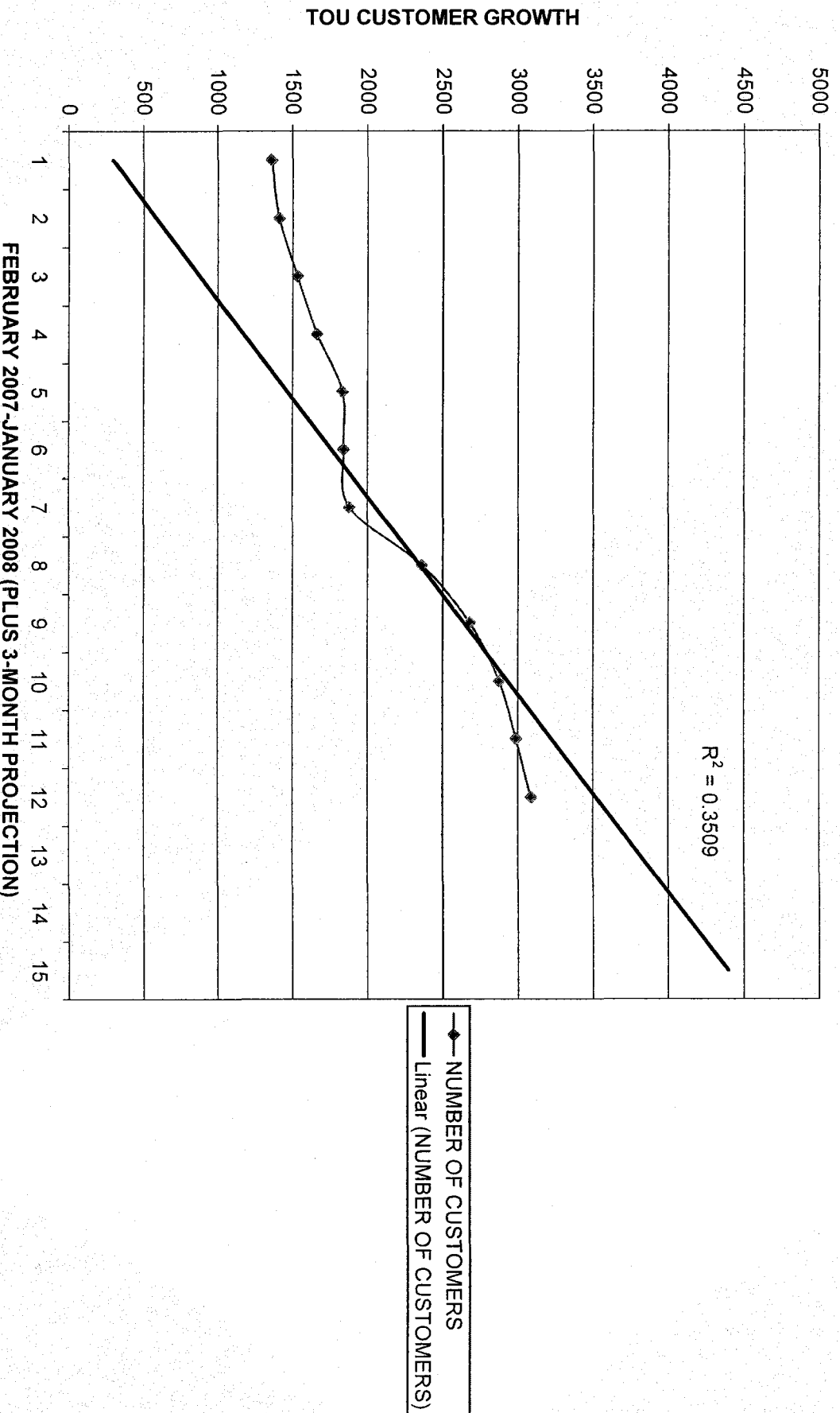
EGJ:WHM:lhmk/L

ORIGINATOR: William H. Musgrove

**TRICO RESIDENTIAL LOST REVENUE PER MONTH**  
**(TOTAL ANNUAL LOSS = \$870,444)**



# TRICO RESIDENTIAL TCU CUSTOMER GROWTH



TRICO ELECTRIC COOPERATIVE, INC.  
 RESPONSES TO FIRST SET OF DATA REQUESTS  
 DOCKET E-01461A-08-0075  
 FEBRUARY 18, 2008

A residential TOU customer could use up to 68% of their energy on-peak and pay the same amount on their bill as a RS-1 customer using only 34% of their energy on-peak. Table One below shows in detail the comparison of how much a TOU customer saves under the current rate design. As Trico's TOU Freeze application stated, a customer can save approximately \$40 per month (\$484 annually) without changing their energy usage pattern.

**Table One: Annual Revenue Comparison Between TOU and RS-1 Customers**

% of Usage On Peak	TOU Annual Bill	RS-1 Annual Bill	TOU Savings	Notes
35%	\$1,264	\$1,748	\$484	Current RS-1 average on-peak energy usage level; TOU customers can save money without changing usage behavior compared to the average RS-1 Customer
68%	\$1,748	\$1,748	\$0	TOU customers can use up to 68% on-peak energy and still save compared to RS-1

The current residential TOU rate does not encourage the customers to use less energy on-peak. In fact, the TOU customer can use more energy on-peak than the average residential customer and still save money.

Ideally, a well designed TOU rate would provide a savings for a customer using less energy on-peak. In the above charts, a TOU customer using 68% of their energy on-peak would pay the same as the average RS-1 customer. In Trico's case, because of an ineffective rate design, TOU customers have reduced bills without changing energy usage to off-peak times.

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**BEFORE THE ARIZONA CORPORATION COMMISSION**

MIKE GLEASON  
Chairman  
WILLIAM A. MUNDELL  
Commissioner  
JEFF HATCH-MILLER  
Commissioner  
KRISTIN K. MAYES  
Commissioner  
GARY PIERCE  
Commissioner

IN THE MATTER OF THE APPLICATION  
OF TRICO ELECTRIC COOPERATIVE,  
INC. FOR APPROVAL TO FREEZE  
PARTICIPATION IN TRICO'S  
RESIDENTIAL TIME OF USE TARIFF

DOCKET NO. E-01461A-08-0075  
DECISION NO. \_\_\_\_\_  
ORDER

Open Meeting  
March 11 and 12, 2008  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Trico Electric Cooperative, Inc. ("Trico" or "Company") is certificated to provide electric service as a public company in the State of Arizona.
2. On February 6, 2008, Trico Electric Cooperative, Inc. ("Trico") filed an application for Commission approval to freeze new participation in its Residential Time-of-Use Schedule RS-1 TOU ("TOU") to allow time to investigate the feasibility of implementing a time-based advanced metering infrastructure and mitigate the negative revenue stream associated with Trico's TOU during the investigative period.
3. Trico is one of the fastest growing electric distribution cooperatives in the United States, and nearly 10 percent of its approximately 36,000 residential customers are served under its TOU tariff. Trico has offered a TOU tariff for more than 15 years, but recent data analyses indicate that the current tariff does not effectively encourage customers to use energy during off-

1 peak hours, which results in no energy conservation and greatly diminishes the tariff's  
2 effectiveness as a demand-side management tool.

3 4. Trico's current TOU tariff was approved in its last rate case (Decision No. 68990)  
4 in 2005, and the approved rates are based on a 2003 cost of service study. Trico exempted  
5 weekends and holidays from on-peak because customers had expressed concerns that it would be  
6 difficult to avoid on-peak hours during weekends and holidays.

7 5. Prior to 2003, Trico rarely experienced coincident peak demands on weekends and  
8 holidays. In addition, Trico only had 215 TOU customers at the end of 2005. However in the  
9 period 2006-2007, Trico experienced 6 monthly coincident peaks on a weekend or during a  
10 holiday. During the same two year period, the number of TOU customers increased to nearly  
11 1,200 and 3,000 in the years 2006 and 2007, respectively. At the end of January 2008, more than  
12 3,000 residential customers were being served under the TOU tariff.

13 6. The importance of these latter developments is that Trico's supplier, Arizona  
14 Electric Power Cooperative, Inc. ("AEPCO"), bills demand charges to its members, i.e., Trico,  
15 based on its members' contributions to the AEPCO monthly coincident peak ("CP") demand. As  
16 discussed above, the CP is occurring more often on weekends or during holidays compared to  
17 years prior to 2006.

18 7. This billing scenario is particularly onerous for Trico. Non-TOU residential  
19 customers are migrating to TOU thereby reducing Trico's revenues while increasing Trico's  
20 demand charges from AEPCO. In addition, AEPCO's demand rate per KW has increased more  
21 than 20 percent compared to its 2004 rates. The situation is further exacerbated by the fact that  
22 migrating ratepayers realize an estimated \$40 per month savings without shifting any on-peak  
23 energy to off-peak hours.

24 8. Trico's data indicate that residential TOU customers use slightly less on-peak  
25 energy over a month compared to non-TOU residential customers, but TOU customers contribute  
26 at least as much to Trico's monthly peak demand compared to the standard residential tariff  
27 customer. Given the alignment of the current TOU and standard rates, TOU rates do not promote  
28 ...



1 energy conservation nor do they provide optimal utilization of electric utility facilities and  
2 resources.

3 9. Staff has recommended that the Commission approve Trico's request to freeze  
4 adding new customers to be served under its residential TOU tariff.

5 10. Staff's recommendation is supported by the finding that recent TOU data analyses  
6 indicate that existing tariff rates do not effectively encourage customers to use energy during off-  
7 peak hours.

8 11. Trico's demand costs have increased with increases in the number of TOU  
9 customers. One reason for this development is that residential TOU customers do not have to shift  
10 usage to off-peak periods to save money.

11 12. Staff believes that the proposed participation freeze will allow Trico time to analyze  
12 additional TOU data and design a new TOU tariff that provides a meaningful price signal to shift  
13 on-peak energy and demand to off-peak hours.

14 13. Staff believes that the proposed freeze period will allow Trico time to complete an  
15 updated cost of service study submit a formal rate case application.

16 14. Staff supports the finding that Trico expects to file with the Commission TOU  
17 tariffs for appropriate customer classes no later than January 30, 2009, and that the filing is  
18 expected to be designed in accordance with the new Federal PURPA standard Time-Based  
19 Metering and Communications.<sup>1</sup>

20 15. Within ten days of a decision in this matter Staff has recommended that Trico be  
21 required to file with Docket Control as a compliance item in this case, the residential TOU tariff  
22 that is frozen.

23 ...

24 \_\_\_\_\_  
25 <sup>1</sup> By Decision No. 69736, on July 30, 2007, the Arizona Corporation Commission ("Commission" or "ACC")  
26 approved a modified version of the Public Utility Regulatory Policies Act of 1978 ("PURPA") Standard on Time-  
27 Based Metering and Communications. The Decision approved, in part, two conditions relevant to the above  
28 referenced Application: 1) the modified Federal standard will apply to all electric distribution utilities that are under  
ACC jurisdiction regardless of their annual retail sales volumes; and, 2) electric distribution utilities under ACC  
jurisdiction are required to investigate the feasibility of implementing time-based advanced metering infrastructures,  
and if they are cost effective, implementation of these systems shall begin no later than January 30, 2009 (within 18  
months of Commission adoption of the standard).

CONCLUSIONS OF LAW

1. Trico is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over Trico and over the subject matter of the application.

3. The Commission having reviewed the application and Staff's Memorandum dated February 27, 2008, concludes that it is in the public interest to freeze the TOU tariff.

4. Approval of the proposed tariff revision does not constitute a rate increase as contemplated by A.R.S. Section 40-250.

ORDER

IT IS THEREFORE ORDERED that Trico Electric Cooperative, Inc.'s Residential Time of Use Schedule RS-1 shall be frozen, and no new customers shall be allowed to use this tariff until further order of the Commission.

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IT IS FURTHER ORDERED that within ten days of a decision in this matter, Trico Electric Cooperative, Inc. is required to file with Docket Control as a compliance item in this case, a tariff indicating that Trico's Residential Time of Use Schedule RS-1 is frozen.

IT IS FURTHER ORDERED that this Order shall become effective immediately.

**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

CHAIRMAN	COMMISSIONER
COMMISSIONER	COMMISSIONER
COMMISSIONER	COMMISSIONER

IN WITNESS WHEREOF, I DEAN S. MILLER, Interim Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_, 2008.

\_\_\_\_\_  
DEAN S. MILLER  
Interim Executive Director

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

EGJ:WHM:lhmkL

1 SERVICE LIST FOR: Trico Electric Cooperative, Inc.  
2 DOCKET NO. E-01461A-08-0075

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